

**ARMSTRONG COMPONENT PARTS (VIETNAM) CO., LTD.**

**IN THE SPOKE, NIPPLE AND RIM MARKETS**

**IN VIETNAM**

**EVANS LEONG (P-EM0126/07)**

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### DECLARATION

I hereby declare that the project is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at USM or any other institutions.

(Signature)

NAME: EVANS LEONG

DATE: 12<sup>th</sup> June 2009

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## ABSTRAK

Selepas 24 tahun reformasi ekonomi yang dikenali sebagai Doi Moi, Vietnam telah pindah daripada penggunaan basikal kepada motosikal dan kereta, daripada satu negara yang termiskin dalam dunia kepada negara yang mengalami pembangunan ekonomi yang kedua pantas di dunia, daripada mengimport beras kepada kedudukan pengeksporth beras kedua terbesar di dunia. Motosikal telah menjadi satu cara pengangkutan popular untuk lebih daripada 80 juta penduduk di Vietnam. Industri motosikal di Vietnam telah dimajukan sejak pertengahan 1990s. Dengan hanya 3 juta motosikal berdaftar pada tahun 1995, Vietnam telah mencatatkan kira-kira 18 juta buah motosikal berdaftar dalam edaran pada tahun 2006.

Armstrong Component Parts (Vietnam) Co., Ltd. (ACPV) telah memulakan operasinya di Hanoi, Vietnam pada tahun 2002, mengkhusus dalam pembuatan “spokes”, “nipples” and “rims” motorsikal. ACPV membekal kepada pengeluar-pengeluar motosikal “Original Equipment Manufacturer” (OEM) di Vietnam. ACPV telah berjaya menguasai pasaran “Spoke dan Nipple” dengan 85 peratus bahagian pasaran, dan adalah pengeluar nombor dua “Rim” motosikal dengan 20 peratus bahagian pasaran.

Tujuan tesis ini adalah untuk mengkaji bagaimana Amstrong Component Parts (Vietnam) Co, Bhd boleh mengekalkan penguasaannya dalam pasaran “Spoke dan Nipple” dan memperluas dalam pasaran “Rim” untuk menikmati bahagian pasaran yang lebih besar. Dalam kajian kes kualitatif ini, penulisan adalah dikemukakan bersama dengan analisis PESTLE, analisis persaingan Porter dan analisis SWOT untuk mengenalpastikan strategi yang sesuai dalam membantu ACPV mencapai lebihan daya saing.

## ABSTRACT

After 24 years of economic reformation known as *Doi Moi*, Vietnam has moved from bicycles to motorcycles and cars, from being one of the poorest countries in the world to being the world's second fastest growing economy, from importing rice to a position of the world's second largest rice exporter. Motorcycle has become a popular means of transportation for the more than 80 million population in Vietnam. The motorcycle industry in Vietnam has developed since the mid-1990s. With just over 3 million motorcycles on the road in 1995, Vietnam boasted approximately 18 million registered motorcycles in circulation as of 2006.

Armstrong Component Parts (Vietnam) Co., Ltd. (ACPV) began its operations in Hanoi, Vietnam in year 2002, specializes in the manufacturing of motorcycle spokes, nipples and rims. ACPV caters to major Original Equipment Manufacturer motorcycle manufacturers in Vietnam. The company has since grown to dominate the Spoke and Nipple market with an 85 percent market share, and is the number two producer of motorcycle rims with an approximate 20 percent of market share.

The purpose of this thesis was to study on how can Armstrong Component Parts (Vietnam) Co., Ltd. maintain its market leadership in the Spoke and Nipple market and expand into the Rim market to enjoy greater market share. In this qualitative case study, the write up is presented along with the PESTLE analysis on Vietnam's macro environment, the Porter's competitive analysis on the Vietnamese motorcycle industry, an internal analysis on the company's strengths and weaknesses as well as external opportunities and threats as well as an identification of relevant strategies that can provide ACPV with competitive advantages in maintaining its market position and gain greater market share.

## EXECUTIVE SUMMARY

Armstrong Component Parts (Vietnam) Co., Ltd. (ACPV) is currently the top producer in the Spoke and Nipple market and the top three producers of rims in Vietnam. Going into its seventh year of operations, ACPV asked the question *"How can we maintain our market leadership in the Spoke and Nipple market and expand in the Rim market to enjoy greater market share?"* With the question in focus, ACPV is faced with the three central questions, namely "What is the company's present situation? Where does the company need to go from here? How should it get there?" Therefore this study seeks to find the answers for ACPV in analyzing the macro environment of Vietnam in terms of its political, economic, socio-cultural, technological and environmental conditions via the PESTLE analysis. The PESTLE analysis highlights Vietnam's strong socio-economic growth and government support in anticipating continuous strong development of the motorcycle industry in the country. Subsequently, the competitiveness of the Vietnamese motorcycle industry as well as ACPV's competitiveness in the Spoke, Nipple and Rim industries in Vietnam are analyzed via the Porter's Five Forces Model. Hence, the industry analysis found that the motorcycle industry in Vietnam has developed competitively and is anticipated to continue growing with Vietnam's greater international integration in the global economy. This will accelerate export growth as well as intensifies competition in the industry. Following the analysis of the Five Forces Model, ACPV's customers and suppliers have a relatively high bargaining power over the company. However, ACPV remains competitive in the industry with relatively low risk in the threats of new entrants, product substitutes and competition.

The strengths and weaknesses as well as the external opportunities and threats of ACPV are then analyzed via the SWOT analysis to evaluate on its resource capabilities and competitive strengths vis-à-vis its competitors. The SWOT analysis found that ACPV, as a fairly new and young establishment has the competencies to undertake opportunities provided in the Vietnamese motorcycle industry and to overcome factors that pose as threats to the company. From there, ACPV's quest continues in indentifying strategic options to be adopted into its current operations via the TOWS Matrix. The TOWS analysis stresses on the importance of ACPV to enhance on the cost leadership strategy to strengthen the company's capabilities to produce and deliver high quality products and services at lower costs in maintaining and enhancing the company value. Lastly, the last chapter consists of recommendations that deem essential for ACPV to adopt in order to sustain its market position and enjoy greater market share.

# **CHAPTER 1**

## **INTRODUCTION**

### **1.0 INTRODUCTION**

This Chapter serves as an introduction to the study, providing a background to the case, an introduction to the central issue, an explanation of the research questions that will guide the way to solve the central issue, as well as the overview of all chapters in this study.

### **1.1 BACKGROUND OF THE CASE**

The first thing I noticed upon arriving in Hanoi, Vietnam was the extraordinary number of motorcycles. There is massive number of them on every street and on every road, making crossing the roads a death-defying running of the gauntlet. Motorcycles are currently playing a big role in road transportation in the Vietnamese society across all ages, gender and occupations. Vietnamese use motorcycle for multiple purposes, from delivering commercial goods to virtually all personal activities.

Motorcycles have become popular means of transportation in developing Asian countries like Vietnam. Due to rising demand, motorcycle production in many of these countries has grown rapidly in the past few decades. The emerging economy in Vietnam is not an exception. The domestic production of motorcycles in Vietnam was initially based on major Japanese and Taiwanese motorcycle manufacturers (Honda, Yamaha, Suzuki and VMEP) in the mid-1990s. However, in the early 2000s, the industry witnessed a massive influx of low-priced Chinese motorcycles, which created intense competition between the foreign manufacturers and newly emerging local assemblers that assembled the Chinese components. Ever since then, the

Vietnamese motorcycle industry has been experiencing boosting consumer demand, rapid expansion of motorcycle production and increased investment in new product development (Fujita, 2008).

The Vietnam's motorcycle industry with the production and consumption of 2 million units of motorcycle per year is one the world's largest motorcycle markets. At the end of 2006, Vietnam had approximately 18 million registered motorcycles in circulation (Institute for Industry Policy and Strategy, (IPSI), 2007). One would say that, Vietnam with its high level of motorcycle production and consumption provides Armstrong Component Parts (Vietnam) Co., Ltd. (ACPV), a Malaysian foreign-invested company, specializing in the manufacturing of motorcycle spokes, nipples and rims with an ideal platform for further development.

However, in 2008, the nation's motorcycle manufacturing industry began to experience a slowdown in its growth. The industry's growth has slowed to 5.5 percent in 2008, an 18.4 percent drop compared to the previous year. And a mere 0.7 percent growth is targeted for year 2009. ACPV, currently operating in Vietnam is in a setting facing with the country's macroeconomic challenges such as slower economic growth, high inflation, depreciating Dong. In addition, the country's population is experiencing increase in standard of living and changes in societal concerns, lifestyles and preferences. Thus, would the changes influence the development of the nation's motorcycle industry and have an impact on ACPV.

ACPV has been in operation since 2002, catering primarily to large Original Equipment Manufacturer (OEM) manufacturers such as Honda, Yamaha, Suzuki and SYM in Vietnam. After over six years of operation, ACPV has managed to achieve the number one position in the Spoke and Nipple market and positioned itself as the top three rim producers in the Vietnamese

market. As ACPV continues to grow, would the company's financial, human capital and technology be able to support the development.

## 1.2 PROBLEM STATEMENT

The growth of the Vietnamese motorcycle industry has enabled ACPV to gain market leadership in the Spoke and Nipple market and is among the top three producers of motorcycle rims in Vietnam. My central issue is based on ACPV's aim in maintaining its position in the respective markets. Thus, as ACPV enters into its seventh year of business in Vietnam, and with a new production line focusing on aluminum rim, the question arises as to *"how can ACPV maintain its dominance and market leadership in the spokes and nipples market and on the other hand, gain greater market share in the rims market"*.

## 1.3 RESEARCH QUESTIONS

As the first step towards the understanding of the macro environment in which ACPV operates, an analysis of the external environment is made. This involves a study of the political, economic, socio-cultural, technological and environmental environment, in terms of factors, which affect ACPV's operations in Vietnam. This environmental analysis gives a general picture of the environment that indirectly influences ACPV. Therefore, research question one is defined as follows: *"What environmental factors influence the operations of ACPV in the Vietnamese market?"*

Moving further to look at the motorcycle industry in Vietnam, it is crucial to gain an understanding of a company's industry and the competitive environment within the industry. This

provides the second research question: *“What is the competitive situation in the Vietnamese motorcycle industry?”*

Lastly, the company itself plays an important role in ensuring its own success in the industry. It is crucial to have an evaluation on the company’s resources and competitive position. Therefore, in order to solve the central issue, the third research question is been identified: *“What are the company’s strengths and weaknesses and its external opportunities and threats?”*

#### **1.4 OVERVIEW OF THE CHAPTERS**

The First Chapter is an introduction to the thesis with an explanation of the central issue and research questions. In the Second Chapter, a combination of the motorcycle industry profile, ACPV’s company profile and literature review on selected topics is discussed. Chapter Three elaborates on the country profile of Vietnam in terms of its political, economic, social, technological and environmental conditions. Chapter Four presents the methodological practices utilized throughout the research process. In Chapter Five, a case write up is presented. In the Sixth Chapter, case analysis is provided coupled with the strategic options for ACPV’s future developments. Finally Chapter Seven presents the conclusion and recommendation concerning the sustainability of ACPV’s position in the Spoke, Nipple and Rim markets.



## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.0 LITERATURE REVIEW**

This Chapter will give an overview of the industry profile, company's profile and the literature review of key concepts. The Chapter will provide an overview of the motorcycle industry in Vietnam, an overview of the company in study, Armstrong Component Parts (Vietnam) Co., Ltd. and an overview of literature on strategic management.

#### **2.1 INDUSTRY PROFILE**

##### **2.1.1 Vietnam's Motorcycle Market**

###### ***2.1.1.1 The Development of the Vietnamese Motorcycle Industry***

###### **The 1990s**

The 1990s witnessed the arrival of foreign motorcycle manufacturers. They started the domestic production of motorcycle rolling in the industry. VMEP, a Taiwanese firm was the first company to invest in 1992. Japanese companies pursued shortly with the entry of Vietnam Suzuki in 1995, Honda in 1996 and Yamaha in 1998 respectively into the Vietnamese motorcycle industry (Fujita, 2008).

The motorcycle production started off with the foreign manufacturers and some local companies importing and assembling completed one-set component parts. Motorcycle demand was low at that time as motorcycle price was relatively high compared to the consumers' income level (IPSI, 2007).

Table 1

*Foreign-invested Motorcycle Manufacturers in Vietnam*

<b>Name of the Company</b>	<b>Year of Establishment</b>	<b>Ownership Structure</b>
Vietnam Manufacture & Export Processing Co., Ltd. (VMEP)	1992	Chinfon Group (Taiwan, 100%)
Vietnam Suzuki Corp.	1995	Suzuki Corp. (Japan, 35%) Sojitz (Japan, 35%), Vikyno: Southern Agricultural Machinery Corp. (Vietnam, 30%)
Honda Vietnam Co., Ltd.	1996	Honda Motor Co., Ltd. (42%), Asian Honda Motors (Thailand, 28%), Vietnam Engine & Agricultural Machinery Corp. (Vietnam, 30%)
Yamaha Vietnam Co., Ltd.	1998	Yamaha Motors (Japan, 46%), Hong Leong Industries (Malaysia, 24%), Vietnam Forestry Corporation (30%)
Lifan Motorcycle Manufacturing JV Co.	2002	Chongqing Lifan (China 70%), Vietnam Import-Export Technology Development Co. (30%)

Source: Fujita (2008).

**The 2000s**

The early period of 2000s witnessed a massive inflow of low-priced Chinese motorcycles dominating the domestic market. A significant growth in the number of local assemblers engaged in the assembly of motorcycles using Chinese components was detected. The industry began to achieve growth in motorcycle demand. From 2000 to 2003, Chinese motorcycles dominated, occupying as much as 60 to 70 percent of the domestic market. Local assemblers experienced immense increase in sales and accounted for approximately 80 percent of the market. Foreign manufacturers faced with significant fluctuations in their market shares and competition from local assemblers have made adjustments to their production, products, prices and services. Their

efforts eventually gained them sales of approximately 62 percent of total sales of the industry (IPSI, 2007).

Table 2

*The Market Share of Motorcycle Manufacturers in Vietnam*

	2001	2002	2003	2004	2005	2006
<b>Market Share (%)</b>	100	100	100	100	100	100
<b>FDI Assemblers</b>	12.94	42.37	57.59	51.71	53.55	54.53
<b>Honda</b>	6.84	21.02	23.68	23.85	28.63	31.57
<b>Yamaha</b>	0.92	3.78	9.80	9.80	11.72	13.74
<b>Suzuki</b>	1.04	2.31	2.88	3.59	3.89	1.69
<b>VMEP</b>	3.18	13.55	11.8	12.02	7.75	5.87
<b>Other</b>	0.97	1.71	2.47	2.46	1.56	1.65
<b>Local Assemblers</b>	87.06	57.63	52.41	48.29	46.45	45.47
<b>Over 40,000 units/year     (6 firms in 2005)</b>	8.07	10.20	12.59	19.35	22.42	27.09
<b>20,000-40,000 units/year     (10 firms in 2005)</b>	40.54	31.10	30.64	24.57	13.43	7.35
<b>10,000-20,000 units/year     (14 firms in 2005)</b>	21.07	10.03	9.16	4.20	8.83	5.46
<b>Less than 10,000     units/year (in 2005)</b>	17.38	6.29	3.00	16.0	1.77	5.57

Source: IPSI (2007), compiled from Vietnam Register Data.

Towards the end of the 2001 to 2005 period, Chinese motorcycles domination decreased. Several factors contributed to the decrease, that includes the problem of over-capacity, competition from foreign manufacturers and failure to respond to customers' quality demand (IPSI, 2007).

The industry entered a new phase around 2005. Motorcycle demand continued to expand strongly. This period also witnessed the move by the Vietnamese government in abolishing a series of regulations restricting sales and production expansion by foreign manufacturers. The move by the government have boosted domestic sales and stimulated a new wave of foreign

direct investment (FDI) in the expansion of motorcycle production and motorcycle component production (Fujita, 2008). By year 2006, Vietnam motorcycle industry reached a production capacity of 2 million units annually, which is one of the world biggest motorcycle producing countries (IPSI, 2007).

#### ***2.1.1.2 The Motorcycle Industry***

Based on the master plan by IPSI (2007), the Vietnam's motorcycle industry, as of September 2005 had a total investment of VND 9,000 billion, amounted to approximately US\$ 566.038 million (based on 1 USD: VND 15,913 as of 30<sup>th</sup> September 2005). The investment of FDI manufacturers accounted for approximately US\$ 394.413 million, of which US\$ 129.32 was legal capital (IPSI, 2007). In 2007, the motorcycle manufacturing industry achieved an industry growth rate of 23.9 percent, positioned among the top of industries in Vietnam (General Statistics Office (GSO), 2007).

The total import value in the motorcycle industry has decreased significantly from 2001 to 2003 due to the development of local supporting industries. However, there is a slight increase in the import value in 2004 and 2005, as the FDI sector has significantly increased their production. In 2005, most import value was is spare component parts and motorcycle completed parts, while completed motorcycles import was mainly middle and high-end scooters. On the other hand, the export value of the motorcycle industry was significantly lower with a value of approximately US\$ 70 million in 2005, comprised mainly of component sets, engines and spared components. The motorcycle exports in the recent period are mainly samples for introduction and survey market in neighboring region (IPSI, 2007).

Table 3

### *Motorcycles Revenue, Export and Import Values in Vietnam*

Year	2001	2002	2003	2004	2005
Total Sales (million US\$)	1,310	1,336	957	1,410	1,208
Total Cost (million US\$)	1,260	1,279	878	1,273	1,159
Profit (million US\$)	50	57	79	137	49
Export Value (million US\$)	6	9	23	46	71
Import Value (million US\$)	713	465	320	452	541
Average Price ( million VND/unit)	10.92	10.35	11.46	11.04	11.19

Source: IPSI (2007).

#### **2.1.1.3 The Product**

According to Intarakumnerd and Fujita (2006), motorcycle units can be classified to two types. One as Completely Build Unit (CBU) and the other as Completely Knocked Down (CKD) unit (a complete set of all parts for assembling). In general, motorcycles in Vietnam can be categorized according to its quality and price. There are the *high-end scooters* (thousand USD) mainly imported from countries with advance motorcycle manufacturing industry. There are also the relatively high quality and price (US\$ 1,000 to US\$ 2,000) *locally manufactured and assembled scooters* and the *locally manufactured gear motorcycles* with prices ranging from hundreds USD to thousands USD. The quality and price differs between the products of FDI and local manufacturers. In 2005, the average price of motorcycle in the industry was about VND 11.2 million (IPSI, 2007).

#### **2.1.1.4 The Supporting Industries**

The main parts of the supporting industries for motorcycle industry include *components* created from steel, plastic, rubber and *production process* such as stamping, casting, forging, welding, shape creation, mechanical process, rice seeding, heat handling. In more detail, components and pattern manufactured technologies play a central position in the core part of

supporting industries. There are three production groups in the motorcycle supporting industries which consist of the metal group, paint-plastic-rubber group and the electric-electronic group, each with its different development levels and competitiveness. FDI companies play an important role in driving the development (IPSI, 2007).

Vietnam's supporting industries for motorcycle industry has been established and developed rather fast with fairly high localization rate. According to the IPSI studies (2007), it is estimated that nearly 1000 enterprises produce motorcycle components in Vietnam, of which more than 200 are FDI enterprises.

The fast development of the supporting industries is due to three main reasons. First, domestic demand with annual demand of over 2 million motorcycles is able to build strong supporting industries. Second, free trade initiatives at national, regional, and global levels which include WTO accession, AFTA commitments and bilateral agreements implementation leading multinational corporations to change production locations to Vietnam. Third, competition of supporting industries in the region, such as Thailand, Indonesia, Malaysia, China and India has improved (The Motorbike Joint Working Group, 2007).

#### ***2.1.1.5 The Government***

The Vietnamese motorcycle industry includes an involvement of many ministries and agencies, therefore both the market and production are greatly affected depending on the policies of these governmental bodies. Policy-making authority over the motorcycle and motorcycle parts industries are distributed among Ministry of Industry and Trade (MIT), Ministry of Planning and Investment (MPI), Ministry of Finance (MOF), Ministry of Science and Technology (MOST),

Ministry of Transport and Communication (MOTC) and Ministry of Trade (MOT) and other agencies (Vietnam-Japan Joint Initiative, 2003).

The Vietnamese government has played major role in influencing the development of the nation's motorcycle industry. The government started off by prohibiting the imports of CBU motorcycles from 1998 to 2003. Consecutively, from 2002, the government strengthened regulations on motorcycle industry through various measures which included; (1) enforcement of import tariffs based on the local content ratio (the higher the local procurement, the lower the component tariffs); (2) imposed of quota for importing parts (the import quota for each company varied, depending on company's capital, production capacity and local content ratio); (3) Renewal of quality and environmental standards for motorcycles and motorcycle parts (Hoang, 2005; Intarakumnerd and Fujita, 2006; Vietnam-Japan Joint Initiative, 2003).

The Vietnamese government has demonstrated support to the national motorcycle industry. The master plan by IPSI (2007) has proposed various measures to support the development of the industry. The measures include, increase support in science and technology to manufacturers that are implementing research and development projects, enhance on the market development, enhance on the development of supporting industries and industrial human resources as well as strengthen the protection of intellectual property rights among others in paving the way for the continuous growth of the industry.

#### ***2.1.1.6 The Market***

Motorcycle market in Vietnam comprises of three characteristics which differ from other developing countries. First, motorcycle use in Vietnam is disproportionately high relative to its automobile use. Vietnam recorded a ratio of registered motorcycle to automobile of 19:1 in 2006.

Second, there is a significant urban-rural gap in motorcycle use. Motorcycles are concentrated in urban markets and large cities. Third, the motorcycle market in Vietnam is very dynamic, with changes in consumers' demand, international influences and manufacturers' business strategies every now and then (IPSI, 2007).

Motorcycles are currently playing a big role in road transportation in the Vietnamese society. Motorcycle is used as a personal mean of transport due to its *convenience* and *mobility* as the public transport is still underdeveloped, *affordability* as the Vietnamese's current living standard is still low to afford automobile and *suitability* with the current condition of road transportation in the country. At the end of 2006, Vietnam had 18,615,960 registered motorcycles in circulation. It is estimated that there is one motorcycle per 2 persons in the urban market, whereas, 6 person per motorcycle in the rural market (IPSI, 2007).

Table 4

*Statistics of Motorcycles and Automobiles in Vietnam*

<b>Year</b>	<b>Motorcycles Quantity (unit)</b>	<b>% Change over previous year</b>	<b>Automobiles Quantity (unit)</b>	<b>% Change over previous year</b>
<b>1995</b>	3,578,156	17.2	340,779	11.0
<b>1996</b>	4,208,247	17.6	386,976	13.6
<b>1997</b>	4,827,218	14.7	417,768	8.0
<b>1998</b>	5,200,000	7.7	443,000	6.0
<b>1999</b>	5,600,000	7.7	465,000	2.9
<b>2000</b>	6,478,954	15.7	486,608	6.6
<b>2001</b>	8,359,042	29.6	557,092	9.6
<b>2002</b>	10,273,000	22.8	607,401	9.0
<b>2003</b>	11,379,000	10.7	675,000	11.2
<b>2004</b>	13,375,992	17.5	774,824	14.7
<b>2005</b>	16,086,644	20.2	891,104	15.1
<b>2006</b>	18,615,960	15.72	972,912	9.2

Source: IPSI (2007).



### 2.1.1.7 The Forecast

The motorcycle market in Vietnam has developed competitively and is anticipated for its continual growth in the future. However, ownership and sales of motorcycles are expected to slow down when the domestic market reaches the saturation point. The IPSI has estimated in their plan that the person-to-motorcycle ratio will attain approximately 3.0 by year 2015. By 2020, urban household is expected to own 2.65 motorcycles while rural household with 1.51 motorcycles. The development is considered to be consistent with the expected GDP growth, construction of urban and rural infrastructure and people's attitude in the coming years. Motorcycle production capacity in Vietnam is projected to continue to increase, achieving approximately 3.2 million units in 2010.

Table 5

#### *Production Capability Forecast of Manufacturers in Vietnam*

	2005		2010		2015		2020	
Producers	Unit (mil.)	%	Unit (mil.)	%	Unit (mil.)	%	Unit (mil.)	%
Honda	0.76	31.26	1.30	39.88	1.30	39.88	1.30	39.88
Yamaha	0.35	14.40	0.64	19.63	0.64	19.63	0.64	19.63
Suzuki	0.12	4.94	0.12	3.68	0.12	3.68	0.12	3.68
VMEP	0.20	8.23	0.20	6.13	0.20	6.13	0.20	6.13
Domestic and Chinese	1.00	41.15	1.00	30.67	1.00	30.67	1.00	30.67
Total	2.43	100	3.26	100	3.26	100	3.26	100

Source: IPSI (2007).

## **2.2 COMPANY PROFILE**

Subsequent to the overview of the Vietnamese motorcycle industry, the following section will highlight on Armstrong Component Parts (Vietnam) Co., Ltd., operating in the motorcycle Spoke, Nipple and Rim markets.

### **2.2.1. Origins and Objectives**

Armstrong Component Parts (Vietnam) Co., Ltd. (ACPV), is located in the Noi Bai Industrial Zone in Hanoi, specializes in the manufacturing of motorcycle spokes, nipples and rims. Noi Bai Industrial Zone as a Malaysian operated industrial park provides ACPV with unambiguous policies, good infrastructure, centralized location and logistics viability since its establishment in year 2002.

ACPV is a subsidiary of Armstrong Auto Parts Sdn. Bhd. (AAP) of Malaysia. It started in 2000 with the parent company, AAP looking for possible location for the company's expansion, and viewed Vietnam as a huge market potential in the motorcycle industry. As at that time, AAP was already dealing with existing customers of Honda and Yamaha and exporting some parts to Vietnam. AAP viewed the establishment of a subsidiary in Vietnam as a chance to be part of the major OEM motorcycle manufacturers' supplier network in Vietnam, as the country began to increase force on the localization policy.

ACPV was incorporated on 16<sup>th</sup> August 2002. ACPV kicked off with the building construction of its spokes and nipples production site at the end of 2002. In 2003, the production for spokes and nipples commenced. ACPV started off with approximately 30 production workers and supported by six expatriates and six workers in administration.

For the first two years, ACPV's production was primarily concentrated on the spoke and nipples production. In the beginning of 2005, ACPV began to add another product to its production line. The building construction for the rims production site was launched in January and production commenced at the end of the year. As of my visit to the factory in 2008, ACPV still maintains its manufacturing of motorcycle spokes, nipples and wheel rims. ACPV caters to Original Equipment Manufacturer (OEM) motorcycle manufacturers such as Honda, Yamaha, Suzuki and SYM in Vietnam.

ACPV has achieved much since its establishment as the first Malaysian company to be established at the Noi Bai Industrial Zone in 2002. In the spokes and nipples market, ACPV plays a dominant role with 85 percent of the market shares and holds approximately 20 percent of the steel rim market share in Vietnam.

### **2.2.2 Customers**

ACPV's customers consist of big foreign-invested OEM motorcycle manufacturers. According to the company's plant manager, basically, ACPV avoids supplying to the Chinese assembler as to avoid displeasing their Japanese customers. This is due to the fact that Japanese manufacturers do not want the Chinese assemblers to claim that their quality is of the same level with them due to having the same suppliers. ACPV's top five customers consist of the following companies namely Honda Vietnam Co., Ltd, Yamaha Motor Vietnam Co., Ltd., Vietnam Suzuki Corporation, Vietnam Manufacturing Export Processing Co., Ltd. and SUFAT Vietnam Co., Ltd.

*Honda Vietnam Co. Ltd.*

Honda Vietnam Co. Ltd is a joint-venture of Honda Motor (Japan), Vietnam Engine and Agriculture Machinery Corporation (Vietnam) and Asia Honda Motor (Thailand), established in

1996 to manufacture and assemble Honda brand motorcycles and motorcycle spare parts. Vietnam has become the largest market for Honda Motor. The company that was established in 1996 had reached its five millionth units of sales in July 2008. In the fiscal year 2008, that ended 31<sup>st</sup> March, Honda had achieved unit sales of 1,125,000 units in Vietnam, increasing 42.9 percent from previous fiscal year. Honda, in respond to the growing diversity of customer needs and increase in demand began construction of its second plant in Vietnam in 2007. Honda's second plant in Vietnam began its operations in August 2008 with an annual capacity of 500,000 units, thus bringing the total annual capacity in Vietnam to 1.5 million units, in which 27 percent of them are accounted for scooters production (Honda Motor Co., Ltd. Annual Report, 2008).

*Yamaha Motor Vietnam Co., Ltd.*

Yamaha Motor Vietnam Co., Ltd. is a joint venture of Yamaha Motor (Japan), Hong Leong Industries Berhad (Malaysia), Vietnam Forest Corporation and Co Do Mechanical Factory (Vietnam), was founded in 1998 to focus in manufacturing of motorcycles and accessories. In 2007, Yamaha with strong market demand coupled with aggressive service campaigns and brand promotions, had managed to expand unit sales by 42.7 percent to 500,000 units. With regard to production capacities, Yamaha planned to expand total production capacity in the five ASEAN countries (Thailand, Vietnam, Malaysia, Philippines and Indonesia) to 4.7 million units during the period of 2008 to 2010. Yamaha, the second largest motorcycle manufacturers in Vietnam after Honda Vietnam had planned to built capacity to 700,000 units annually with the operation of its second plant by 2010 (Yamaha Motor Co., Ltd. Annual Report, 2007).

### *Vietnam Suzuki Corporation*

Vietnam Suzuki Corporation with major shareholders of Suzuki Motor Corporation, Sojitz Corporation and Vikyno was established in 1995 aiming to promote better living conditions and satisfy people's transportation need by producing and supplying Suzuki motorcycle and automobile products. Suzuki's factory holds a production capacity of 100,000 units in a year ([www.suzuki.com.vn](http://www.suzuki.com.vn)).

### *Vietnam Manufacturing Export Processing Co., Ltd*

Vietnam Manufacturing Export Processing Co., Ltd, a subsidiary of Sanyang Motor Taiwan (SYM) was established in Vietnam in 1992. VMEP has already become a successful example of the SYM's overseas production base, with sales volume reaching the scale of millions of units. In the future, VMEP will continue to take on more important role of becoming the base of SYM's ASEAN operations center ([www.sym.com.vn](http://www.sym.com.vn)).

### *SUFAT Vietnam Co., Ltd*

SUFAT Vietnam Co., Ltd was established in 1996, specialized in trading motorcycle. SUFAT along with the cooperation of Japanese and Taiwan experts has launched many kinds of motorcycle with high quality and reasonable price accepted by Vietnamese consumer. Since its establishment, SUFAT has grown in both scale and production capacity from its conception. SUFAT brand has been affirmed in the market, associated with high quality products. SUFAT has been focusing in the investment of researching and designing new models to be in consistent with the development of Vietnam motorcycle industry ([www.sufatvietnam.com.vn](http://www.sufatvietnam.com.vn)).

### **2.2.3 Suppliers**

ACPV has a network of 22 suppliers. These suppliers provide ACPV with supplies such as spokes and nipples wire, chemicals for zinc and nickel plating, rim steel coils and etc. The complete list of ACPV's major raw materials can be viewed in the appendix. ACPV's major suppliers consist of suppliers from Taiwan, Japan, Thailand, Malaysia, Hong Kong as well as locally. Of the numerous suppliers, five are ACPV's top suppliers. These five top suppliers accounted for approximately 60 percent of the company total purchases. ACPV's top five suppliers consist of the following:

1. Chiao Pao Metal Co., Ltd. (spoke and nipple wire)
2. Phuong Bac Trading Co., Ltd. (plating chemicals and nickels)
3. Camelia Metal Co., Ltd. (spoke and nipple wire)
4. Tsai See Enterprise Co., Ltd. (rim steel coils)
5. Taisei Trading Co., Ltd. (nipple wire)

ACPV maintains a strong and good relationship with its suppliers. There is sharing of information between supplier through occasional meeting, emails and phone calls regarding issues such as the market situation, market price of raw materials, delay in deliveries and so on. ACPV worked closely with its suppliers in order to achieve quality standard for its supplies. In addition to that, close relationship with suppliers gain priorities when there is shortage of supplies in the market.

## **2.3 LITERATURE REVIEW**

In this section, an overview of the strategic management literature will be provided. The concept of strategic management will be introduced, to give a clearer idea about how ACPV could take into account the company's internal and external factors in a process of developing a strategy or plan to reach a long-term goal.

### **2.3.1 Strategic Management**

Strategic management has been around for nearly a half century, and its early roots can be traced back to the writings of Henri Fayol and Frederick Taylor. The practice of strategic management has become far more refined and distinguished since then with the development of information technology, the internet, and knowledge management systems (Sherman, Rowley and Armandi, 2007). Pearce and Robinson (2003) defined strategic management as a set of managerial decisions and actions that result in the formulation and implementation of plans designed to achieve an organization's objectives. Strategic management encompasses an integrated, future-oriented managerial perspective that is forward-thinking, outwardly-focused and performance-based.

Based on Wheelen and Hunger (2002), strategic management includes environmental scanning (external and internal), strategy formulation (strategic and long-range planning), strategy implementation and evaluation and control. The fundamental basis to strategic management is to match an organization's competencies and resources with the external environment in creating a perfect fit and developing a sustainable competitive advantage (Sherman, Rowley and Armandi, 2007). As a whole, the four main elements of strategic management are as the following;

First, the strategic approach is oriented toward the future (forward-thinking). As changes occur in the internal and external environment, the approach leads managers to ask where are their organizations currently position now, where they want their organizations to be in the future, what do they need to do to get to where they want, how to develop the strategies and means to get there and finally how to manage the strategies in achieving their organizations' goals and objectives. Although the future cannot be controlled, organizations by anticipating the future can help to shape and modify the impact of environmental change (Crosby, 1991).

Second, the strategic approach has an external emphasis (outwardly-focused). It involves monitoring and evaluation of the external environment in terms of the political, economic, socio-cultural and technological dimensions. Strategic management recognizes that each of the aspect may either constrain or facilitate the development of an organization as it seeks to implement policy (Crosby, 1991). The simplest way to conduct environmental scanning is through the SWOT analysis, in helping to assess the external environment which consists of variables (opportunities and threats) that are outside the organization (Wheelen and Hunger, 2002).

Third, the strategic approach concentrates on assuring a good fit between the environment and the organization. The approach also attempts to anticipate what will be required to assure continued fit. Thus, managers need to assess not only the external environment but the internal environment of the organization which consists of variables (strengths and weaknesses). The internal key variables may include mission, objectives, strategies, structures and resources. The strategic approach recognizes that to maintain a close fit with the environment, the different elements of the organization will need to be continuously re-assessed and modified as the environment evolves (Crosby, 1991; Wheelen and Hunger, 2002).



Finally, the strategic approach is a process. It is continuous and recognizes the need to be open to changing goals and actions s factors within the environment. Strategic management is a continuous and ongoing process in formulating, implementing and controlling of an organization's strategy-related decisions and actions (Crosby, 1991; Pearce and Robinson, 2003).

### **2.3.2 Generic Competitive Strategies**

There are many competitive strategies that companies could employ, as each company's strategic approach may entail different actions to fit its own resources and industry environment. Porter (1980) has identified three internally consistent generic strategies that create defensible position in the long run and outperforming competitors in an industry. The three generic strategies introduced consist of cost leadership, differentiation and focus, which Porter divided into cost focus and differentiation focus. These strategies are called generic because they can be pursued by any type or size of business firm (Wheelen and Hunger, 2002).

The cost leadership strategy is an integrated set of actions designed to produce or deliver goods or services with features that are acceptable to customers at the lowest cost, in comparison to competitors (Hoskisson, Hitt and Ireland, 2004).

The differentiation strategy is an integrated set of actions designed to produce or deliver products or services (at an acceptable cost) that customers perceive as being different in ways that are important to them (Hoskisson, Hitt and Ireland, 2004).

Focus strategy is an integrated set of actions designed to deliver products or services that serve the needs of a particular competitive segment (Hoskisson, Hitt and Ireland, 2004).

Based on Thompson, Strickland and Gamble (2008), each of the generic competitive approach stakes out a different market position. Each of the strategy involves distinctively

different approaches in competing and operating business. The cost leadership strategy will be further discussed in this section, as it serves as a core strategy to the output of this case.

Cost leadership strategy is a powerful approach in industries with many price sensitive buyers. A low-cost provider's strategic target is meaningfully lower costs than rivals. Companies need to achieve their cost advantage in ways that are difficult for competitors to imitate or match. However, in striving for cost advantage in relative to competitors, companies must be aware to include features that are of importance to the customers (Thompson, Strickland and Gamble 2008).

According to Thompson, Strickland and Gamble (2008), a company has two options to translate a low cost advantage over rivals into attractive profit performance. The first option is to attract price sensitive buyers in great number to increase total profits underprice competitors by suing the lower-cost edge. The second option is to maintain present pricing, be content with present market share and use the lower-cost edge to earn a higher profit margin.

In achieving a lower-cost edge, a company must strive to lower its value chain cumulative costs in relative to competitors. Thompson, Strickland and Gamble (2008) stated two ways in achieving the cost advantage; (1) Do a better job than competitors of performing value chain activities more cost-effectively; (2) Revamp the firm's overall value chain to eliminate some cost- producing activities.

By having a low-cost position gives company a unit of defense against competitors and allows for company to yield profits despite the presence of strong competitive forces. A low-cost position defends a company from powerful buyers as buyers can only apply their power to drive prices to the level of the next most efficient competitor. Low cost providers having more

flexibility in coping with input cost increases, have high bargaining power in relative to its suppliers. Low-cost position will serve as a barrier to entry as few new entrants will be able to match in terms of leader's cost advantage and economies of scale. Finally, a low-cost position usually places company in a favorable position in comparison to substitute products relative to competitors. Thus, a low-cost position protects a company against the five forces of competition (Porter, 1980; Wheelen and Hunger, 2002).

## 2.4 SUMMARY

As a whole, this chapter is divided into three parts. The first part of the chapter focuses on the profile of the motorcycle industry in Vietnam. Vietnam despite being a latecomer that only began to industrialize under its transition to a market economy has emerged as the world's fourth largest market in motorcycles. Vietnam possesses a huge market potential in not only meeting domestic demand but also participating in the export market with the backing of supporting industries, government support and manufacturers' capability.

Moving on, the second part of the chapter focuses on the company in study, Armstrong Component Parts (Vietnam) Co., Ltd. (ACPV). In its seventh year of business, ACPV specializes in the manufacturing of motorcycle spokes, nipples and rims. ACPV currently dominates the Spoke and Nipple market.

Finally, in the last part of the chapter, the literature on strategic management and generic competitive strategies were introduced.

## **CHAPTER 3**

### **COUNTRY PROFILE**

#### **3.0 COUNTRY PROFILE**

This Chapter will provide with an overview of Vietnam, highlighting on the political, economic, socio-cultural, technological and environmental conditions of Vietnam.

Socialist Republic of Vietnam commonly known as Vietnam is a long, narrow country covering an area of 326,560 square kilometers. It borders China to the North, Laos to the Northwest and Cambodia to the Southwest. With a population of over 86 million, Vietnam is the 13th most populous country in the world. The capital city of Vietnam is Hanoi while Ho Chi Minh is the largest city in Vietnam. Vietnam has a tropical climate, which is characterized by lots of sunshine, high rainfall, humidity with two distinguished seasons in general; the cold seasons occur from November to April and the hot season from May to October (CIA Factbook, 2009).

Vietnam, a single-party communist state is divided into 59 provinces and 5 municipalities (CIA Factbook, 2009). The President of Vietnam is the head of state and the nominal commander in chief of the military of Vietnam, chairing the Council of National Defense and Security. The Prime Minister of Vietnam is the head of government, presiding over a council of ministers. The Vietnamese Communist Party (VCP) has a monopoly on power and controls all organs of Vietnam's government (Vietnam Government Web Portal, 2007). Vietnam remains politically stable thus far.